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SUBJECT: El Salvador's Fiscal Reform Moves to the National Assembly

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¶1. (SBU) SUMMARY: The Government of El Salvador's fiscal reform package moved forward to the National Assembly and will likely pass before the Christmas holidays. While the Ministry of Finance made a number of minor changes to its October proposal (reftel) following lengthy consultations with the private sector, the underlying plan, including numerous new taxes, remains intact. The GOES made good on promises to consult stakeholders and operate transparently. The complicated reform, however, is still likely to produce less revenue than the GOES has projected. Trade agreement concerns with the alcoholic beverage tax have not been addressed. END SUMMARY.

¶2. (U) Minister of Finance Carlos Caceres presented the GOES's revised fiscal reform package to the National Assembly on November 30, after several weeks of consultations with the private sector and other interest groups. On December 1, the Ministry published the full reform package to its website (http://www.mh.gob.sv/portal/page/portal/MH_PR INCIPAL/), including summary documents detailing which group proposed what change and which changes the Ministry accepted. The Ministry claimed to have accepted the great majority of the change requests it received.

¶3. (SBU) President of the Private Enterprise Association (ANEP) Carlos Enrique Araujo, whose organization led the private sector in its negotiation with the GOES, called on the National Assembly to study the reforms carefully for at least three months and reiterated the private sector's overall opposition to raising taxes during a recession. Jorge Daboub, President of the Salvadoran Chamber of Commerce, publicly compared the private sector's participation in the discussions to handing over one's wallet to a mugger in order to save one's life. Araujo told Econcouns that ANEP was disappointed the GOES did not accept more of its proposed changes.

¶4. (U) Leading (center-right) think tank FUSADES has continued to criticize both the timing and complexity of the reform package throughout the negotiations. In response, Central Bank President Dr. Carlos Acevedo told the press that FUSADES was not providing a valid analysis because it was controlled by a cabal of "corporate interests." (NOTE: FUSADES was founded by the private sector with assistance from USAID, but is now funded by an endowment and revenues from various spin-off projects. END NOTE.) President Funes personally joined the criticism of FUSADES in an interview published December 4.

¶5. (SBU) In former Minister of Economy Miguel Lacayo's view, the

reform is "not ideological, just incompetently written." Lacayo told Econoffs that the tax on interest on savings accounts, one of the major points of private sector concern, was "perfectly justifiable economically and fiscally," but would lead to capital flight because of uncertainty about what an FMLN government would do with information on how much money is in one's bank account. Lacayo also expressed concern about immediately criminalizing tax cases, without an option for administrative settlement. Because of "incompetence" in the Attorney General's office, he said, this would likely mean the GOES will take longer to resolve tax cases while likely receiving less revenue than in an settlement.

¶6. (SBU) ARENA Deputy and President of the Assembly's Economic Commission Mario Marroquin advised Econoffs that, despite ARENA's opposition, the GOES had the votes in the Assembly to pass the reform no later than the Christmas holidays. Araujo and Amcham President Armando Arias told Econcouns that they had met with the FMLN delegation leadership in the Assembly, who had promised them that the Assembly would listen closely to the private sector during the debate. They were far from certain, however, that this would lead to any changes in the legislation.

¶7. (SBU) COMMENT: While the GOES made mostly cosmetic changes to its original proposal, it did conduct open, transparent consultations with the private sector and other stakeholders as it had promised. Changes made did not reduce the complexity of the reforms, which will still likely produce less revenue than expected as consumers and businesses alter their behavior. The GOES also did not address trade agreement concerns in the proposed changes to the alcoholic beverage tax (reftel). Post will continue to engage with the Ministries of Finance and Economy on possible CAFTA and WTO issues with the alcoholic beverage tax. END COMMENT.
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